UN

Distr.
GENERAL

IDB.16/3
PBC.12/3
4 October 1996

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Sixteenth session
Vienna, 20-22 November 1996
Item 5 (e) of the provisional agenda

Programme and Budget Committee

Twelfth session
Vienna, 18-20 November 1996
Item 9 of the provisional agenda

INDUSTRIAL DEVELOPMENT FUND AND OTHER VOLUNTARY CONTRIBUTIONS

Estimated resource level and programme for 1997-1998

Report by the Director-General

Summary

Reviews the approvals of projects financed by the Industrial Development Fund and describes the approach by the Secretariat for the programming of the Fund for 1997 and 1998.

CONTENTS

		Paragraphs	*Page*
Introduction		1 - 2	2
Chapter			
I.	OVERVIEW OF 1995	3 - 6	2
II.	STRATEGY FOR 1997 AND 1998	7 - 19	2
III.	ACTION REQUIRED OF THE COMMITTEE	20	4

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.96 85268 (E) (e:\1996\pmc.4)

Distr.: 9 October 1996

Introduction

1. In view of the small amount available in the regular budget for technical cooperation, extrabudgetary funding is essential to enable the organization to fulfil its mandate and to address the priorities approved by Member States. The Industrial Development Fund (IDF) is the central financing mechanism for such funding of UNIDO technical cooperation programmes and projects.

2. The present report provides information on the volume of funding provided through IDF in 1995, broken down by medium-term plan priority and by region. Starting with 1996, projects will be classified based on the seven thematic priorities that were endorsed by the General Conference in December 1995 (GC.6/Res.1). The report also describes the approach for programming IDF resources in 1997 and 1998.

I. OVERVIEW OF 1995

3. In previous reports, separate figures were given for pledges made and approvals under IDF. In the interest of clarity, however, only actual approvals will be reported in the future. On the one hand many IDF contributions are made through approval of projects without any pledge having been made beforehand, and on the other not all pledges result in actual contributions.

4. Approvals in 1995 reached $22 million (including revisions to ongoing projects but excluding Montreal Protocol), as compared with $23 million in 1994. As reported for 1994, the Secretariat continues its policy of greater selectivity in relation to projects submitted to potential donors, as well as ensuring higher quality. This is demonstrated by the percentage of submitted projects that are actually approved, although projects submitted in one year may be approved only in the following year (see figure 1).

5. Figure 2 shows new approvals under IDF by medium-term plan priority. Net approvals (including revisions) (excluding Montreal Protocol) by region are shown in figure 3. It must be emphasized that, owing to the extremely high portion of special-purpose funding under IDF, the Secretariat is largely dependent upon donor policies and priorities in terms of programming by regions or priority. Thus, despite efforts to achieve a balanced distribution, the actual spread is heavily influenced by donor policies and priorities. However, the development of the seven thematic priorities and the high impact programmes that were an integral part of the reform are expected to be reflected in approvals in 1996.

6. Net IDF approvals funded by the Montreal Protocol, broken down by region, are shown in figure 4. This source of funds is now financing a large ongoing UNIDO programme in an area of high international priority. Approval authority here is also not with UNIDO, and there is only limited influence on regional allocations. Nonetheless, project development efforts are spreading to those regions that have received fewer benefits from the Montreal Protocol. However, it must be borne in mind that not all countries are signatories to the Protocol, a pre-condition for eligibility for funding.

II. STRATEGY FOR 1997 AND 1998

7. For IDF, priority will be awarded to programmes and projects developed under the thematic priorities and the new approach to developing UNIDO service programmes (see IDB.15/14, paras. 13-17). These are:

(a) Strategies, policies and institution-building for global economic integration;

(b) Environment and energy;

(c) Small and medium enterprises;

(d) Innovation, productivity and quality for international competitiveness;

(e) Industrial information, investment and technology promotion;

(f) Rural industrial development;

(g) Africa and the least developed countries (LDCs): Linking industry with agriculture.

In terms of regional distribution, priority will be given to Africa and LDCs.

8. The focusing of UNIDO on these thematic priorities and on developing a critical mass of expertise for, and a consistent approach to, these priority areas is expected to improve funds mobilization. The more concentrated programme development activities foreseen for the limited number of high priority large-scale programmes and projects will facilitate early contacts with all categories of prospective donors and, where appropriate, involve such donors in the programme development phase.

9. The new approach—with enhanced consultation with Governments, beneficiaries and other relevant parties—is also expected to lead to proposals of a higher quality. This will also be achieved by ensuring effective teamwork within the Organization.

10. The new approach, whereby funds mobilization efforts are integrated in the programme/project development phase and in part delegated to the programme development teams, will facilitate donor involvement, also through their bilateral missions in the developing countries. It is anticipated that this approach will improve the responsiveness of the Organization,

both to recipients as well as to donors, and strengthen the capacity of UNIDO to mobilize funds.

11. To translate the thematic priorities into actual country-level programmes, IDF will play a central role. Sufficient freely programmable IDF resources are essential to enable UNIDO to undertake the preparatory analytical and consultative phase required to develop tailor-made comprehensive programmes under the seven thematic priorities at the country level. The Fund should also be the main source of financing for core parts of programmes, developed to attract complementary funding from other sources (e.g. United Nations Development Programme, bilateral sources, third-party and self-financing trust funds). Attaining the long-standing IDF target of $50 million per year established by the policy-making organs, of which $10 million would make up the general-purpose convertible segment, must be considered essential to cover the priority areas and attract sufficient complementary resources.

12. In order to increase the level of resources made available through IDF, the Secretariat is working with existing donors to increase their contributions. In addition, the Secretariat is trying to develop relations with additional potential contributors. This includes other ministries or organizations in the main donor countries in addition to the regular contributor. For instance, ministries responsible for environment or trade might have interest in specific UNIDO programmes and projects, or specialized development agencies might be willing to fund projects or cooperate with UNIDO.

13. Efforts will also be renewed to approach the more developed of the developing countries. For example, on the lines of the long-standing contributions that India makes to both the essential general-purpose convertible pool and special-purpose segments of IDF, these countries could make important contributions to activities of the Organization. Such contributions would of course also be very important to support South-South co-operation. Such initiatives could relate to more industrialized countries in one region helping their less developed neighbours—for instance, the ASEAN countries could be specifically interested in LDCs in the Asian region. Other models could include South-South cooperation between subregional groupings of countries, e.g. ASEAN and Mercosur.

14. New approaches will also be made to developed countries that, for various reasons, have so far not yet regularly contributed to the Fund. This will in part be done in specific contexts—for instance an approach could be related to the Mediterranean region, where the European countries may have specific interest in the North African countries.

15. Other initiatives to increase available resources include funds mobilization through the Internet, where the UNIDO home page (HTTP://www.unido.org) has started listing project profiles for which donors have not yet been identified. Where appropriate, targeted approaches using the Internet to submit projects to specific organizations are envisaged.

16. It is evident that new donors might opt to channel their funds through trust funds rather than IDF itself. However, in terms of programmatic importance this mechanism is not really different from special-purpose IDF contributions.

17. Under the new programme/project cycle approach, UNIDO builds on the quality assurance and evaluation systems already integrated in the work of the Organization and will seek to strengthen them further. Objectives-oriented project planning methodologies and workshops, so far used for projects, are expected to be applied as well to programmes where their positive impact can be even more important.

18. To increase the leverage of IDF, the Secretariat will actively pursue complementarity of other funds with IDF, for example:

(a) Part of the Regular Programme for Technical Cooperation and the general-purpose convertible component of IDF will be used to develop programmes and projects (seed money) that are expected to attract funding, with the Regular Programme focused on the earliest stages of programme development and IDF on the development of programmes and projects ready for submission to donors;

(b) IDF funding for central components of integrated programmes will be used to attract complementary funding for specialized components of such programmes.

19. In summary, the Secretariat will concentrate its IDF strategy on the following:

(a) Definition, promotion and implementation of a limited number of high-quality, large-scale programmes and projects;

(b) The programmes/projects will build upon UNIDO experience and success stories in terms of provision of knowledge-based services through high-level and multidisciplinary expertise;

(c) Small-scale projects will be confined to those of a preparatory assistance nature and to strategic projects for the provision of high-level advice to solve specific problems;

(d) The programmable resources of UNIDO under the general-purpose convertible segment of IDF will be utilized mainly for preparatory assistance and assessment of needs;

(e) Quality management will continue to be strengthened and will encompass all stages of project development, including implementation;

(f) Human and financial resources will be concentrated on selected activities. Focus will be awarded to the thematic priority programmes outlined in paragraph 8 above.

III. ACTION REQUIRED OF THE COMMITTEE

20. The Committee may wish to consider recommending to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the report of the Director-General contained in document IDB.16/3-PBC.12/3;

"(b) Approves the approach for 1997 and 1998 as contained in that document;

"(c) Decides to delegate authority to the Director-General to approve projects for financing under the Fund in 1997 and 1998 in accordance with the seven thematic priorities;

"(d) Encourages Member States:

"(i) To increase their pledges to the Industrial Development Fund to ensure that the desirable annual funding level of $50 million be reached as soon as possible through governmental contributions;

"(ii) To provide part of their contributions to the general-purpose convertible segment of the Fund so that a minimum annual level of $10 million may be achieved as soon as possible;

"(iii) To consider providing umbrella contributions for financing preparatory assistance of large-scale activities and/or as contributions towards the seven thematic priorities."

Figure 1

New IDF approvals as a percentage of projects submitted

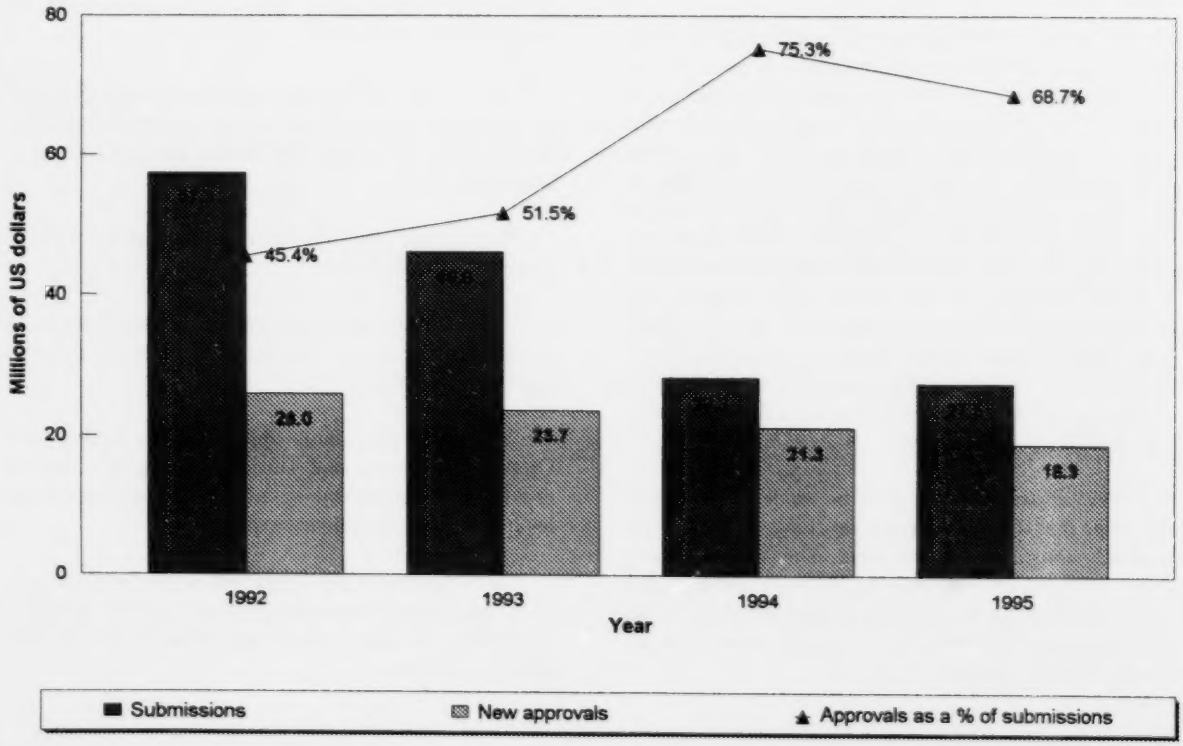
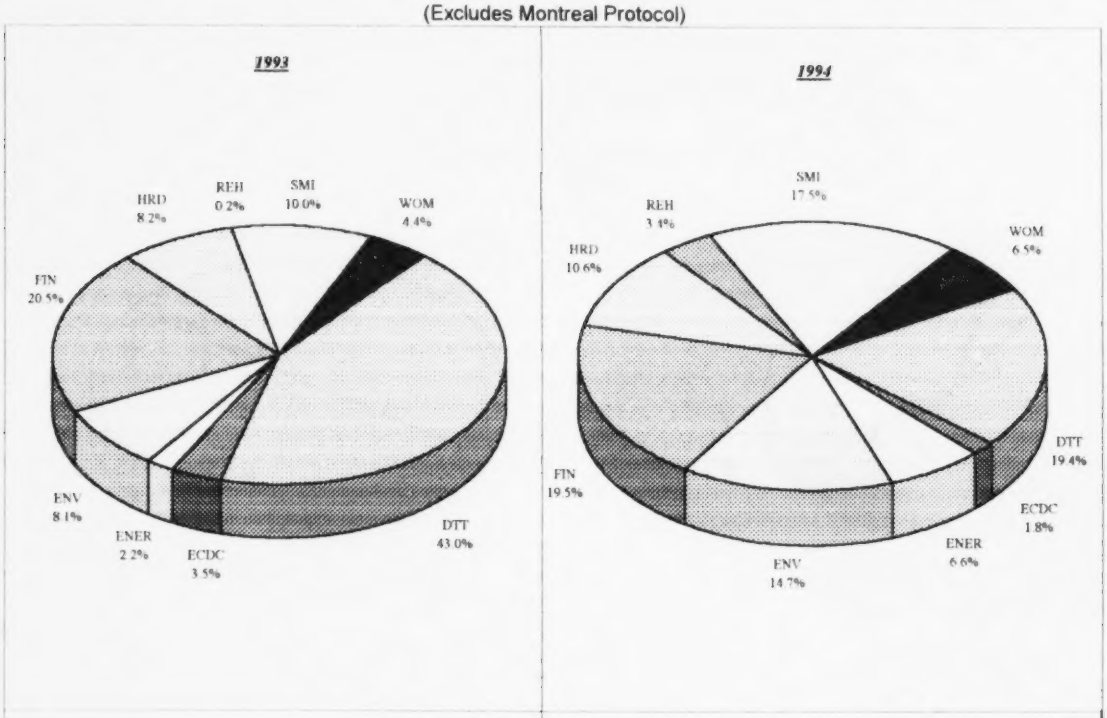


Figure 2

New IDF approvals by medium-term plan priority area and common element a/

(Excludes Montreal Protocol)



In US dollars

MTP priority	*1993*	*1994*	*1995*
DTT	10,178,823	4,132,030	4,821,430
ECDC	837,725	379,163	-
ENER	511,867	1,399,144	35,000
ENV	1,909,107	3,128,870	297,650
FIN	4,840,503	4,155,149	5,912,038
HRD	1,950,405	2,257,990	1,983,262
REH	45,900	721,784	1,781,054
SMI	2,360,482	3,729,022	2,705,035
WOM	1,031,493	1,374,074	1,328,907
TOTALS	23,666,305	21,277,226	18,864,376

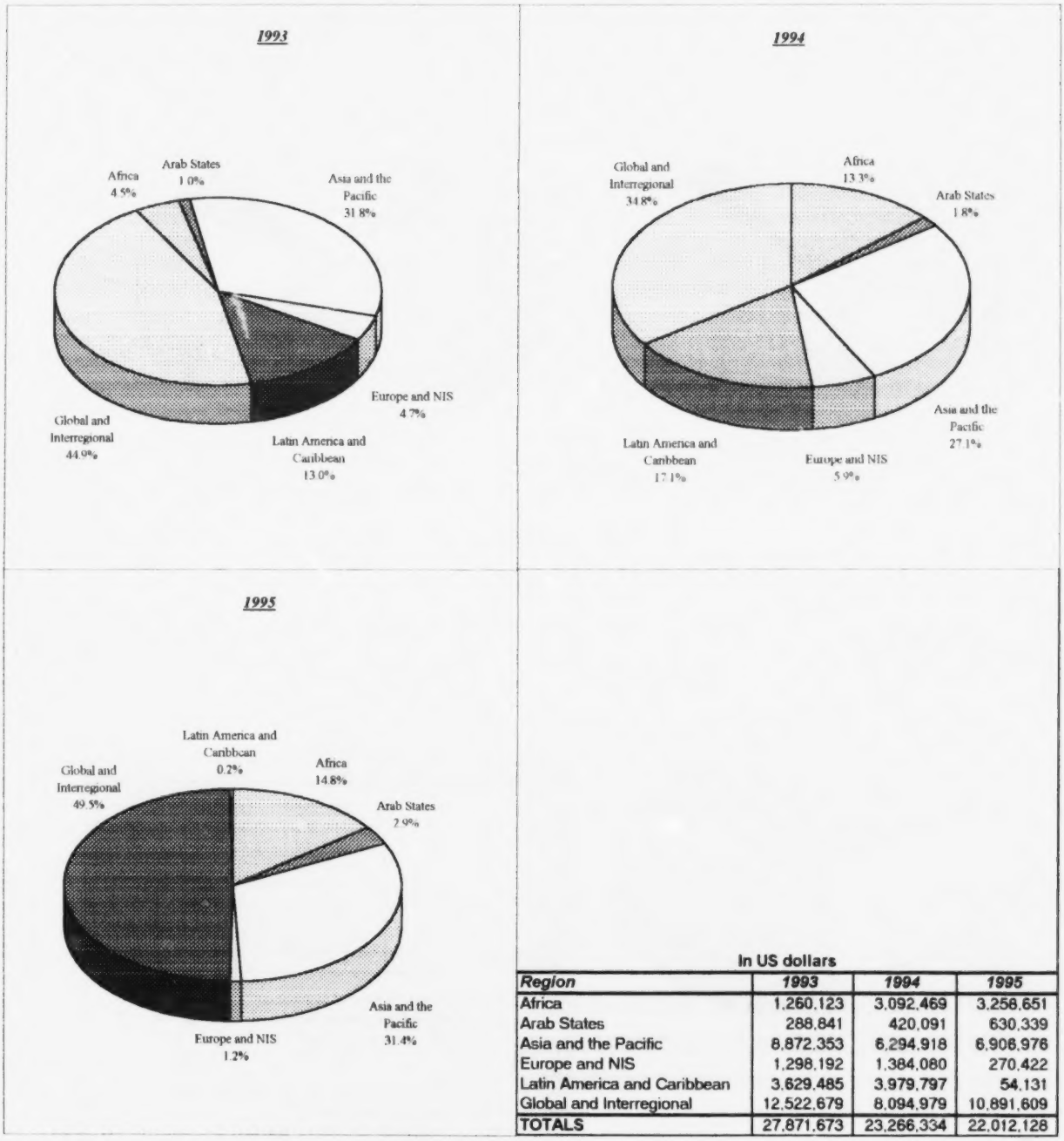
DTT	Development and transfer of technology
ECDC	Economic cooperation among developing countries and subregional industrial cooperation
ENER	Energy
ENV	Environment
FIN	Mobilization of financial resources for industrial development
HRD	Human resources development
REH	Industrial rehabilitation and modernization
SMI	Small- and medium-scale industries
WOM	Integration of women in industrial development

a/ New approvals only (excluding changes/revisions) are utilized to reflect the thematic distribution, as net figures would include projects approved prior to the establishment of the medium-term plan priority areas for 1990-1995.

Figure 3

Net IDF approvals by region a/

(Excludes Montreal Protocol)



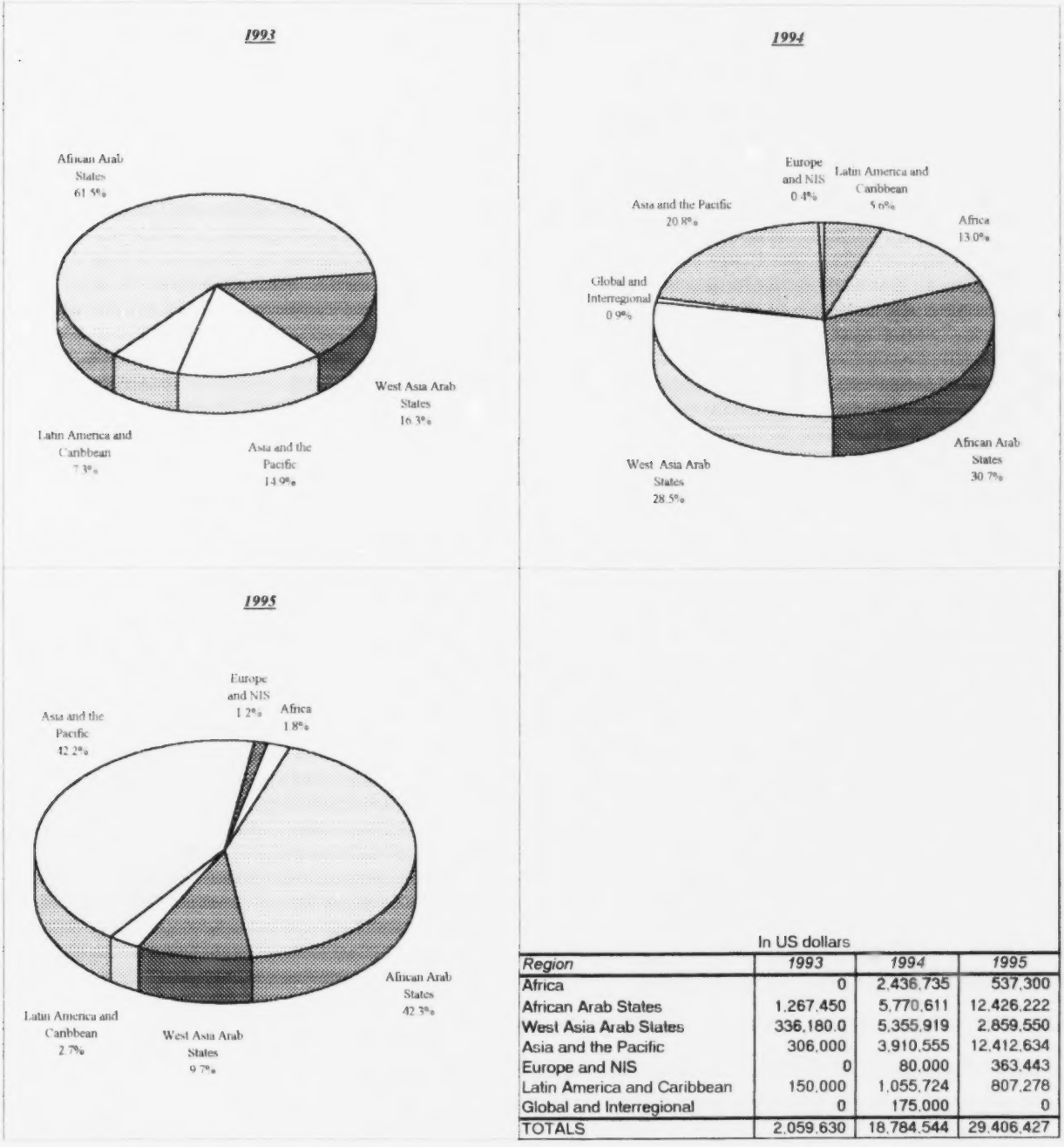
In US dollars

Region	*1993*	*1994*	*1995*
Africa	1,260,123	3,092,469	3,258,651
Arab States	288,841	420,091	630,339
Asia and the Pacific	8,872,353	6,294,918	6,906,976
Europe and NIS	1,298,192	1,384,080	270,422
Latin America and Caribbean	3,629,485	3,979,797	54,131
Global and Interregional	12,522,679	8,094,979	10,891,609
TOTALS	27,871,673	23,266,334	22,012,128

a/ Includes changes/revisions to existing projects

Figure 4

Net Montreal Protocol approvals by region a/



In US dollars

Region	1993	1994	1995
Africa	0	2,436,735	537,300
African Arab States	1,267,450	5,770,611	12,426,222
West Asia Arab States	336,180.0	5,355,919	2,859,550
Asia and the Pacific	306,000	3,910,555	12,412,634
Europe and NIS	0	80,000	363,443
Latin America and Caribbean	150,000	1,055,724	807,278
Global and Interregional	0	175,000	0
TOTALS	2,059,630	18,784,544	29,406,427

a/ Includes changes/revisions to existing projects

Distr.
GENERAL

IDB.16/4
PBC.12/4
27 August 1996

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Sixteenth session
Vienna, 20-22 November 1996
Item 5 (c) of the provisional agenda

Programme and Budget Committee

Twelfth session
Vienna, 18-20 November 1996
Item 5 of the provisional agenda

REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1994-1995

Comments of the Director-General on the report of the External Auditor

CONTENTS

		Paragraphs	*Page*
Introduction		1	2
Chapter			
I.	GENERAL COMMENTS	2	2
II.	SPECIFIC COMMENTS	3 - 43	2
III.	ACTION REQUIRED OF THE COMMITTEE	44	7

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.96 85459 (E) (a:\1996\pmo.4)

Distr.: 9 September 1996

Introduction

1. The present document provides the comments of the Director-General on the report of the External Auditor covering the period 1994-1995 (IDB.16/2 - PBC.12/2). As in the past, many comments of management made on the draft audit report are reflected in the final report. However, the Director-General feels it necessary to make additional comments so that Member States are presented with a balanced view on the audit findings. The Director-General, in presenting his views, would like to express his appreciation of the observations and recommendations made by the External Auditor and the constructive manner in which the audit was carried out.

I. GENERAL COMMENTS

2. The Director-General welcomes the more analytical and informative style of the report, which provides a new insight into the operations of the Organization. The report also provides a more balanced perspective: while pointing out areas that need improvement, it also refers to limitations imposed by forces beyond the control of the Director-General and the Secretariat.

II. SPECIFIC COMMENTS

3. As recognized by the External Auditor, the Secretariat presented the financial statements in a new format under the revised accounting standards, following the recommendation of the Consultative Committee on Administrative Questions (CCAQ), Financial and Budgetary Questions (FB). The Secretariat took the initiative to present relevant information in a new, condensed form to enhance transparency and accountability to Member States.

Summary of findings and conclusions (paras. 9-41)*

4. The Director-General notes that the summary does not contain the clarifications made or actions taken by the Secretariat on the reported findings. Secretariat comments, clarifications and actions already taken are contained only in the main body of the report. In order to provide Member States with a balanced overview the Director-General suggests that the External Auditor, in future reports, reflect the views of the Secretariat in the summary of findings and conclusions as well as in the main body.

Budgetary, accounting and financial reporting procedures

Regular budget assessed contributions income (paras. 9, 42-46)

5. The Director-General fully concurs with the comments of the External Auditor on the arrears of assessed contributions. With a view to expediting timely payment of assessed contributions, the Secretariat has proposed certain remedial measures to the open-ended discussion group of representatives from Member States to study applicable measures to expedite the timely payment of assessed contributions (IDB.15/Dec.4). The Director-General clearly wishes the Member States to demonstrate their support for the Organization by meeting their financial obligations in full and on time.

Regular budget implementation (paras. 10, 47-51)

6. Delayed payment, or non-payment, of assessed contributions forced the Director-General to take a number of measures to reduce expenditure, mainly in administrative and support functions. This has led to an extraordinarily high balance of appropriations at the level of 10.1 per cent at the end of 1995.

Regular budget overexpenditures (paras. 11, 52-55)

7. The Secretariat acknowledges that the amount of $68,851 was transferred as a result of savings largely from one major object of expenditure (supplies and materials) to another (contractual services) and that this was not submitted to the policy-making organs for their approval as required by financial regulation 4.3(b), owing to an oversight. The Secretariat exercises the utmost vigilance in this area and considers the oversight as exceptional.

Regular budget unliquidated obligations (paras. 12, 56-60)

8. The Secretariat agrees with the comments of the External Auditor. The requirement to confirm in writing the validity of obligations at year end is now included in the amendment to the administrative instruction which designates certifying officers. For future year-end reviews of regular budget unliquidated obligations, appropriate follow-up will be carried out with individual certifying officers.

---

* Paragraph numbers refer to paragraphs in the report of the External Auditor (IDB.16/2-PBC.12/2).

Accounting and reporting procedures: Commitments approved for future fiscal periods
(paras. 13, 61-66)

9. The Secretariat accepted the recommendation of the External Auditor and has amended financial rules 104.3 and 109.6(b) to bring the legislative provision into line with actual procedures. The Secretariat also welcomes the initiative of the External Auditor to have the definition of, and accounting practices for, commitments discussed at the next meeting of the Panel of External Auditors.

Liquidity position (paras. 14-15, 70-77)

10. The Secretariat wishes to point out that, by applying contributions received by the Working Capital Fund from the United States of America against unpaid assessed contributions of the same contributor, the Fund has effectively been reduced from $9 million to $6.75 million. Ninety per cent ($5.9 million) of the reduced Fund was used as an advance to the General Fund as at 30 June 1996.

Cash flow statement (paras. 16-18, 78-80)

11. The Director-General is pleased to note the positive remarks of the External Auditor on the new presentation of the cash flow statement, which follows the revised accounting standards as approved by the CCAQ (FB) and endorsed by the Administrative Committee on Co-ordination (ACC).

Bank reconciliation (paras. 19, 81-83)

12. The Director-General appreciates the positive remarks of the External Auditor on bank reconciliation as at 31 December 1995.

Voucher and cheque register
(paras. 20, 84-86)

13. While the Secretariat appreciates the advice of the External Auditor regarding the introduction of an electronic data processing (EDP)-supported control of the cheque and voucher register, computerization projects have to be carefully assessed, prioritized and controlled within the available resources and the Organization's information technology strategy, as recommended by the External Auditor in paragraph 159. Management Information Service (MIS), together with the Information Technology Management Committee (ITMC), are formulating a comprehensive information technology strategy, as part of which the priority of implementing an electronically controlled cheque register will be considered.

Cash management

Liquidity planning (paras. 21, 87-91)

14. The Secretariat agrees with the External Auditor that good reporting procedure is a prerequisite for optimizing liquidity planning. To implement the recommendation of the External Auditor made in October 1995, Treasury has been granted access to the requisition stage of the electronic procurement system since November 1995. As the information in that system is not yet complete, it is of partial use in liquidity planning. Full implementation of the procurement system should result in an improvement in liquidity planning.

15. As indicated in the Secretariat's comment to the recommendation of the External Auditor on information technology (chap. VII, paras. 154-158), the requisition stage of the procurement system is being fine-tuned, and training for the substantive divisions started in August 1996. The system will be expanded on a test basis to cover purchase requisitions for technical cooperation and Headquarters procurement. During the testing period, further fine-tuning will be made based on user feedback. After full implementation, expected in the second quarter of 1997, enhanced liquidity planning would be possible.

Investments and interest earnings (paras. 22, 92-103)

16. After having carefully considered the recommendation of the External Auditor in paragraphs 97-98 that the Secretariat should make investments in United States dollars rather than Austrian schillings, the Secretariat reached the conclusion that the difference in the yield between United States dollars and Austrian schilling investments does not warrant the risk of judgemental errors that could result when arranging fixed forward (FX) deals in exchanging currencies. As Member States are assessed in both United States dollars and Austrian schillings, the Organization cannot afford to incur losses linked to the fluctuation in exchange rates, and this risk, in the view of the Secretariat, offsets any potential benefits from possibly higher interest rates on United States dollar investments. The Secretariat prefers a conservative approach, that of lower return and lower risk, to that of higher return and higher risk.

17. On the other hand, the Secretariat agrees with the recommendation under paragraph 102 that a greater portion of the funds of the Organization should be entrusted to professional investment managers, who can then also address questions related to the optimum term of investments. The Secretariat has initiated discussions with three financial institutions to this effect, taking into account the considerations of security of investments and the level of management fees.

Bank accounts (paras. 104-105)

18. In addition to the closure of several bank accounts, as reported by the External Auditor, the Secretariat has closed seven additional accounts. The agreement for the establishment of a multi-currency account with one bank has been finalized and this account is now operative.

Contracts and purchases

Written policies and procedures (paras. 23, 110-113)

19. The Secretariat acknowledges the delay in finalizing the purchase and contracts manual. Its finalization is linked to the revision of the financial rules, some of which apply to contracts and purchases. The proposed revisions to the financial rules are expected to be completed by the end of 1996 and, likewise, the purchase and contracts manual is expected to be completed by the end of 1996. The manual will reflect the common guidelines on procurement in the United Nations system adopted in April 1996 by the United Nations Inter-Agency Procurement Working Group.

Technical cooperation activities

Project expenditure and regular budget expenditure (paras. 24-25, 114-120)

20. The Director-General has noted with great interest the analysis of technical cooperation expenditures. While appreciating the efforts of the External Auditor to measure UNIDO performance in the area of technical cooperations activities, the Director-General has a reservation on the concept and methodologies of the analysis and particularly on the conclusions drawn. The Director-General cautions against drawing conclusions on programme performance from aggregate financial information without examining the premises of the analysis.

21. At the concept level, the difficulty of designing meaningful performance measures and indicators must first be recognized. Performance measures may mislead as much as they inform if the users are unaware of the subtle limitations of measurement systems. Performance measures for UNIDO must be designed based on its new mission, strategy and objectives, all of which have recently undergone fundamental changes. A simple time-series analysis of financial figures would be misleading since all the standards against which UNIDO performance can be measured have changed, in addition to the radical reorganization and downsizing. Performance measures must also be clear whether they measure inputs, processes, outputs, outcomes or impacts, and if they measure the efficiency, cost/effectiveness or sustainability of UNIDO services.

22. It should be borne in mind that the integrated technical cooperation services of UNIDO cannot simply be measured by project delivery statistics in relation to Headquarters support services. The Secretariat has been called upon by Member States to perform a dual function: (a) world-wide forum for supporting and promoting industrial development; and (b) provider of integrated technical cooperation services. Both functions are interlinked with each other and with support services. The global forum function enables UNIDO to be at the forefront in the analysis of world-wide industrial trends and the identification of priority support requirements of different groups of developing countries. At the same time, issues emerging in the context of technical cooperation services often provide a stimulus for a broader exchange of experience at the regional or global level. None of the two functions could be carried out without basic support functions at Headquarters, i.e. programme and project development, research and statistical support, funds mobilization, substantive supervision, operational support services such as recruitment, fellowships, purchase and contracts, as well as financial management.

23. In addition to the above conceptual issues, methodological problems also arise. First, the General Fund figures for 1995 include an extraordinary item for termination indemnities in 1995 of $7.5 million. By excluding this charge, the technical cooperation/General Fund (TC/GF) ratio for 1995 increases to 0.90. Secondly, the expenditure figures are not adjusted for the falling value of the United States dollar vis-à-vis the Austrian schilling during the period 1986 to 1995. The falling value of the dollar, about 35 per cent during the period, "inflates" the costs of the General Fund and programme support costs which are largely schilling-based, compared to technical cooperation delivery, which is dollar-based. Adjustment for the falling dollar value would bring the ratios significantly upward, for instance, that of 1995 to 1.38, the level of 1986.

24. It is acknowledged that the suggested adjustments do not change the overall downward trend in the ratios during the last five years. It should be kept in mind, however, that the downward trend is caused, to a large extent, by the general decline in the flow of Official Development Assistance (ODA) funds to developing countries through the United Nations system, as implied in paragraph 120 of the report of the External Auditor. The declining resources have affected more the technical cooperation activities which are supported by voluntary, extrabudgetary resources than General Fund resources which are mandatory and budgetary. Furthermore, the Director-General is aware that a high volume of technical cooperation does not necessarily imply high quality of technical cooperation. The past drive to increase project delivery has sometimes led to the so-called "PAD syndrome" or "approval culture", whereby large-scale

projects were sought without due regard to quality. The Director-General is keen to maintain the balance between quality and volume of technical cooperation activities.

25. Member States may be advised that, if the ratio of the extrabudgetary contributions to the regular budget is to be used as a measure of efficiency or productivity, UNIDO is the most efficient/productive organization among the 13 specialized agencies, according to a Joint Inspection Unit survey made in 1993 (document IDB.16/12 refers). Furthermore, the Secretariat considers that a productivity measure defined in terms of technical cooperation project delivery per staff member is a better performance measure, and the ratio has gone up significantly in recent years due to both staff reduction and managerial process improvements.

26. For the above reasons, the Director-General cannot fully agree with the conclusions of the External Auditor stated in paragraphs 117 and 118 of her report. Having said that, the Director-General will continue his efforts to meet the increasing requests for UNIDO services by broadening the access to different sources of funds. The Secretariat, on the other hand, will continue its efforts to design relevant and practical performance measures/ indicators for UNIDO, through a working group established in 1995 for this purpose.

Project cycle management (paras. 26-32, 121-141)

27. With respect to country programming briefs, Director-General's bulletin UNIDO/DG/B.177 referred to in paragraph 122 of the report has since been superseded by Director-General's bulletin UNIDO/DGB(P).8. The new bulletin has adopted a more pragmatic approach. It centres around a regular dialogue between UNIDO and the Government of the recipient country, resulting in a common understanding on a focused UNIDO support programme in accordance with the country requirements and the new UNIDO thematic priorities. Country programming briefs will continue to be used where and when required; preparation is no longer mandated, however, in each case by the new bulletin.

28. As for the UNIDO Country Director (UCD) programme, the Secretariat acknowledges the observations of the External Auditor and is taking a number of corrective measures. Detailed information on this subject is provided in the report on field representation (IDB.16/19). The future structure of the field representation programme is of great concern to the Organization and is under in-depth review by the Policy Advisory Group on Field Representation. Based on the current financial situation of UNIDO, long-term strategy and plans require careful consideration and can only be finalized once the resource availability over a longer period is established.

29. Since about 20 UCD offices will be affected by the discontinuation of financing of these offices by the United Nations Development Programme (UNDP) beyond 1997, the Policy Advisory Group will examine various alternatives on how to secure the financial sustainability of the programme. Within the limits of the available financial resources, the structure and location of field offices will be designed accordingly, taking into account the criteria of relevance, cost-effectiveness and sustainability.

30. A draft revised standard post description for UCDs was prepared in March 1996 and is being finalized by the Advisory Group, taking into account the recent restructuring and greater decentralization of authority to the field offices. A UCD recruitment profile is now available that will be used for the establishment of an internal and external candidate roster. Headquarters staff and women will be given preference when identifying suitable candidates. A procedure for the recruitment and systematic rotation of UCDs is being developed. Finally, all UCDs were requested to submit a work plan as part of the new staff performance evaluation system, based on which a mid-term review and annual performance evaluation will be carried out. All in all, a comprehensive review of the assignment and management of UCDs has been initiated.

31. With respect to the guidance of UCDs by Headquarters, the Field Support Unit in the Office of the Managing Director, Country Programmes and Funds Mobilization Division (CFD), provides support to the management and coordination of the field offices. The field offices, both UCDs and Junior Professional Officers (JPOs), have been integrated with the respective Regional Bureau. The Secretariat is working out a new regular reporting system from UCD offices to Headquarters, and Internal Audit prepares periodic audits of selected UCD offices. As for the handbook for UCDs, a tentative outline was prepared and presented to the Policy Advisory Group in August 1995. The financial constraints faced by UNIDO as well as the ongoing reform process hindered its completion. The Policy Advisory Group will prepare a concept/outline of the handbook by the end of 1996.

32. Regarding comprehensive policy guidelines on project cycle management, the Secretariat wishes to emphasize that the main conceptual changes in the project cycle relate to the identification, development and approval of programmes and projects as well as the new approach to focus UNIDO activities. Director-General's bulletins UNIDO/DGB(P).8 and UNIDO/DGB(P).9 were

issued in April 1996, and training of staff is in progress. Parts of the new approach, for instance the Screening Committee for ad hoc projects, have been operating since the beginning of the year.

33. Changes in the project implementation phase relate to re-engineering of management and administrative processes involving a new coordination mechanism between several divisions. These changes entail a careful analysis, design, development and introduction of new procedures as well as computer systems. Given that this task is carried out while normal operations continue, this takes considerable time. Guidelines and regulations, however, have always existed even if not in a fully consolidated form. Consolidated guidelines and standards can be issued only when the re-engineering has been completed. Work on a Director-General's bulletin on project implementation is at an advanced stage and is expected to be finalized by the end of September 1996.

Information technology

Implementation of consultancy recommendation for further computerization of UNIDO
(paras. 33, 142-146)

34. The Secretariat agrees with the External Auditor that, before engaging in any future consultancies for information technology (IT), the financial feasibility of implementing the recommendations should be carefully evaluated. It is further agreed that an IT strategy is essential for the Organization as the basis on which to set priorities for application development that are aligned with the overall strategy of UNIDO. For this purpose, MIS, under the direction of ITMC, together with Activity Area 3 of the UNIDO reform, are currently preparing an IT strategy for consideration and approval of the Director-General.

35. Regarding the history of all IT consultancies carried out between 1991 and 1995, and the cost of $560,000, it is not accurate to consider them all as having had the purpose of helping the Organization find its information technology strategy. Indeed, the Touche Ross consultancy of 1991 at a cost of $240,000 was aimed primarily at identifying savings in the cost of the computerization programme; several smaller consultancies were aimed at identifying options for a more suitable facilities management contract, establishing database standards or evaluating software packages for technical cooperation and investment promotion activities. It would be accurate to consider the amount of $277,000 as the cost of two consultancies dedicated to IT strategy (Andersen Consultants in 1992 and Muraskievicz/Rybinski in 1995). These were useful exercises that gave UNIDO its information systems development methodology and a detailed description of recommended IT projects, many of which are still valid. The IT strategy under preparation will certainly rely on these consultancies as a starting point.

Development and implementation of EDP applications (paras. 34-35, 147-159)

36. The Secretariat wishes to stress that the travel information and coordination system (TRICOS) should be seen as an experiment at a cost of $30,000 from which UNIDO learned a number of lessons. It was a necessary step required in order to shift UNIDO into a different technology platform. The costs of the acquired hardware and generalized software should not be considered lost, since it is or will be used for other purposes. TRICOS as such has not and probably will not be used because its design was overtaken by technological developments, specifically the availability of the Internet within UNIDO, but the system was a catalyst that accelerated the implementation of (a) an adequate client/server platform for UNIDO and (b) an organizational environment for future applications development using such platform. Internal Audit has already looked into the matter and issued several recommendations.

37. As the External Auditor acknowledges, the investments made in the development of the procurement system have not been lost. The system is undergoing fine-tuning. Training for the requisition officers in the substantive divisions will be completed in summer 1996. The system will be test-implemented throughout the Secretariat starting from autumn 1996. With the agreement of all users, the system could then be implemented in the second quarter of 1997. A by-product of the overall use of this system is its effect on liquidity planning, as mentioned in paragraph 16 of the present document.

38. The Secretariat agrees with the External Auditor that new systems, or improvements in existing systems, need to be justified on the basis of a cost-benefit analysis, and that actual achievements need to be evaluated against the original objectives. The information technology strategy being formulated will be discussed by ITMC and at the top management level to arrive at a set of priorities based on the strategic needs of the Organization. A survey of high-level information requirements based on key business processes was initiated early in August 1996. Initially identified priority areas are those that: (a) support management decision-making (e.g. executive information systems); (b) support the service delivery processes of the Organization (e.g. country and/or sectoral information base); (c) add features or remove deficiencies in existing systems (e.g. cost accounting, online recording of all accounting transactions). Systems will be implemented according to a workplan that will

be monitored by ITMC to ensure that any obstacle which prevent the successful use of a system are identified and removed, on a timely basis.

Personnel matters

Financial information on the staff costs of substantive divisions of UNIDO (paras. 36-37, 160-162)

39. The Secretariat considers that the staff costs reflected for 1995 in table 11 should exclude the extraordinary charges in 1995 for termination indemnities. Excluding these charges would make the output ratio of technical cooperation expenditure per United States dollar spent on staff costs of substantive divisions 2.00 (External Auditor's report shows 1.89) and the share of staff costs of substantive divisions in total staff costs 63 per cent (External Auditor's report shows 62 per cent), which is a significant increase over the previous year 1994 (56 per cent). This, as noted by the External Auditor, reflects the Secretariat's efforts to maintain the high level achieved in the prior biennium. On the decline in technical cooperation expenditures in recent years, please refer to the comment of the Director-General in paragraphs 20 to 26 of the present document.

Organizational structure of UNIDO
(paras. 38, 163-171)

40. The Director-General would like to draw the attention of Member States that the General Conference approved the calendar of reform for 1996 as proposed by the Director-General (GC.6/Res.1), and this calendar is being followed. A detailed report was submitted to the Industrial Development Board at its fifteenth session (document IDB.15/14) and another is under preparation for the current session of the Board (IDB.16/18). The calendar foresees that the main thrust of the reform will be concluded as planned— by the end of 1996. Whereas the report of the consultant is being used to steer the reform efforts, the Director-General intends to follow the guidance of Member States.

The 1995 staff reduction exercise
(paras. 39-40, 172-180)

41. The Secretariat wishes to point out that, as of 31 July 1996, expenditures from the separation indemnity reserve for voluntary and non-voluntary separations for the 1995 exercise amounted to $13.6 million. Total payments, including outstanding liabilities, are expected to remain below the authorized ceiling of $17 million. The doubts expressed by the External Auditor as to whether the amount set aside for this purpose would be sufficient seems to be based on the contingency plan, which provided for a reduction of 60 Professional and 180 General Service *posts*. In *staff* terms, however, only 128 staff members took an agreed termination, while 17 staff members were compulsorily laid off at the end of June 1996. The contracts of 38 short-term and 30 time-limited[1] were simply allowed to expire, without creating additional financial liabilities.

42. While appreciating the comment of the External Auditor that the staff reduction exercise was caused by circumstances beyond the control of UNIDO, the Director-General would not agree with the suggestion that UNIDO enforced a staff reduction without due consideration of such factors as workload measurements. The organizational and functional structures of each division were carefully reviewed by the external consultant in late 1995. Each Managing Director identified low priority workload areas and proposed posts for abolition as part of a restructuring process with a view to maintaining programme effectiveness while reducing costs. The Director-General will continue his efforts to enhance the economy and efficiency of the Organization with the support of all staff of the Organization and Member States.

Other matters

Finance manual (paras. 41, 181-189)

43. The Secretariat agrees with the recommendation of the External Auditor and has taken action to complete and update the finance manual, and to distribute the revised manual to all staff members carrying out financial functions in the Organization by early 1997.

III. ACTION REQUIRED OF THE COMMITTEE

44. The Committee may wish to take note of the comments of the Director-General and actions taken by the Secretariat which are contained in the present document in response to the report of the External Auditor for the biennium 1994-1995.

---

[1]Includes 200 series intermediate and short-term and fixed-term (under 100 series) staff.

Distr.
GENERAL

IDB.16/5
PBC.12/5
29 August 1996

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Sixteenth session
Vienna, 20-22 November 1996
Item 5 (g) of the provisional agenda

Programme and Budget Committee

Twelfth session
Vienna, 18-20 November 1996
Item 11 of the provisional agenda

WITHDRAWAL OF THE UNITED STATES OF AMERICA FROM UNIDO

Some legal and financial implications

Note by the Secretariat

CONTENTS

		Paragraphs	*Page*
Introduction		1	2
Chapter			
I.	LEGAL EFFECTS	2 - 13	2
	A. Constitutional provisions relating to withdrawal	2 - 4	2
	B. Effects of withdrawal on participation in the organs and activities of UNIDO	5 - 6	2
	C. Effects of withdrawal on the activities of the Organization in the territory of the United States of America	7 - 13	2
II.	EFFECTS OF THE TERMINATION OF THE TAX REIMBURSEMENT AGREEMENT AND OTHER AGREEMENTS ENTERED INTO BETWEEN THE UNITED STATES OF AMERICA AND UNIDO	14 - 24	3
	A. The tax reimbursement agreement	14 - 21	3
	B. Other agreements	22 - 24	4
III.	OUTSTANDING PAYMENT OF ASSESSED CONTRIBUTIONS	25 - 28	4
IV.	ACTION REQUIRED OF THE COMMITTEE	29	4

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.96 85616 (E) (e:\1996\pmo 4)

Distr.: 9 September 1996

Introduction

1. The twelfth session of the Programme and Budget Committee and the sixteenth session of the Industrial Development Board are the last meetings to be held by these organs before the official withdrawal of the United States of America from UNIDO. The present document draws the attention of both the Committee and the Board to some of the legal and financial implications of the withdrawal from the Organization.

I. LEGAL EFFECTS

A. Constitutional provisions relating to withdrawal

2. Article 6 of the Constitution of UNIDO deals with the withdrawal of a Member State from the Organization. In its paragraph 1, it is stated that "A Member may withdraw from the Organization by depositing an instrument of denunciation of this Constitution with the Depositary." The Depositary of the Constitution of UNIDO is the Secretary-General of the United Nations.

3. Paragraph 2 provides that "Such withdrawal shall take effect on the last day of the fiscal year following that during which such instrument was deposited." Thus, as the Government of the United States of America deposited its instrument of denunciation on 4 December 1995, its withdrawal from the Organization will take effect on 31 December 1996. Membership rights and obligations will continue until that date.

4. A withdrawing Member is under an obligation to pay its assessed contributions for the year during which it deposited the instrument of denunciation. Furthermore, according to paragraph 3 of Article 6, "The contributions to be paid by the withdrawing Member for the fiscal year following that during which such instrument was deposited shall be the same as the assessed contributions for the fiscal year during which such deposit was effected." In addition, the withdrawing Member shall fulfil any unconditional pledges it made prior to such deposit. It also has an obligation under international law to pay its arrears, if any (see paras. 23-25 below).

B. Effects of withdrawal on participation in the organs and activities of UNIDO

5. The participation of a withdrawing State in the organs of UNIDO would only come to an end on the date its withdrawal takes effect. Until such date, the withdrawing State retains its full membership in the Organization and may participate in the activities of the organs of the Organization.

6. Once a withdrawing State ceases to be a member of the Organization, the only way for it to participate in the work of UNIDO is under the status of observer, as provided for in Article 4 of the Constitution.

C. Effects of withdrawal on the activities of the Organization in the territory of the United States of America

7. An intergovernmental organization such as UNIDO can conduct its activities in a country only if its legal status is recognized there and if it enjoys a certain number of immunities and privileges in such a country.

8. The Constitution of UNIDO provides for the legal capacity and the privileges and immunities necessary to the Organization for the exercise of its functions and for the fulfilment of its objectives in the territories of its Member States. In particular, according to Article 21, paragraph 1, "The Organization shall enjoy in the territory of each of its Members such legal capacity and such privileges and immunities as are necessary for the exercise of its functions and for the fulfilment of its objectives." Paragraph 2 of the same article further specifies that the legal capacity and the privileges and immunities shall:

"(a) In the territory of any Member that has acceded to the Convention on the Privileges and Immunities of the Specialized Agencies in respect of the Organization, be as defined in the standard clauses of that Convention as modified by an annex thereto approved by the Board;

"(b) In the territory of any Member that has not acceded to the Convention on the Privileges and Immunities of the Specialized Agencies in respect of the Organization but has acceded to the Convention on the Privileges and Immunities of the United Nations, be as defined in the latter Convention, unless such State notifies the Depositary on depositing its instrument of ratification, acceptance, approval or accession that it will not apply this Convention to the Organization; the Convention on the Privileges and Immunities of the United Nations shall cease to apply to the Organization thirty days after such State has so notified the Depositary;

"(c) Be as defined in other agreements entered into by the Organization."

9. Since the United States has not acceded to the Convention on the Privileges and Immunities of the Specialized Agencies, it is in accordance with the Convention on the Privileges and Immunities of the United Nations, extended to UNIDO under Article 21, paragraph (2) (b) of its Constitution, that UNIDO enjoys, in the United States, the status, privileges and immunities required for the performance of its functions.

10. In addition, the International Organizations Immunities Act, a federal act passed by the United

States Congress in 1945 that extends privileges, exemptions and immunities to international organizations "in which the United States participates pursuant to any treaty or under the authority of any Act of Congress authorizing such participation" has been made applicable to UNIDO and its officials by Executive Order No. 12628 of 8 March 1988.

11. With the entry into effect of the United States withdrawal, Article 21 will no longer be applicable. Thus, UNIDO, its assets and its officials would no longer enjoy in the territory of the United States such privileges and immunities as are defined in the Convention on the Privileges and Immunities of the United Nations unless the United States authorities decided to continue to apply to UNIDO the provisions of their domestic legislation, i.e. the International Organizations Immunities Act.

12. The status of the UNIDO Liaison Office to the United Nations in New York would, however, be different. It is the view of the UNIDO Secretariat that this office, its staff members and experts designated by the Organization should continue to enjoy the immunities and privileges necessary for the continued performance of their functions as representatives of a specialized agency to the United Nations, by virtue of the Relationship Agreement between the United Nations and UNIDO and the Headquarters Agreement concluded on 14 December 1946 between the United Nations and the United States.

13. It should be noted that the United States continued to apply the International Organizations Immunities Act to the International Labour Organization (ILO) and to the United Nations Educational Scientific and Cultural Organization (UNESCO) after its withdrawal from these Organizations. In the case of ILO this was effected through legislation adopted by the United States Congress in 1979. The United States later rejoined ILO in 1980. With regard to UNESCO, the continued extension of immunities and privileges appears to be based on the fact that the United States continues to participate in a number of UNESCO programmes and has an observer status with the Organization.

II. EFFECTS OF THE TERMINATION OF THE TAX REIMBURSEMENT AGREEMENT AND OTHER AGREEMENTS ENTERED INTO BETWEEN THE UNITED STATES OF AMERICA AND UNIDO

A. The tax reimbursement agreement

14. A tax reimbursement agreement was concluded between UNIDO and the Government of the United States of America on 26 March 1993. This agreement provides that the United States shall refund UNIDO the amounts that the Organization has disbursed to its staff members who are liable for and pay United States federal, state, and local income taxes on their "institutional income" (i.e. salaries or emoluments paid to them by the Organization) as defined in the annex to the agreement.

15. The conclusion of the agreement was prompted by the adoption by the fourth session of the UNIDO General Conference on 22 November 1991 (resolution GC.4/Res.23) of financial regulation 5.3 and staff regulation 6.8 (c). The United States is the only Member State with which UNIDO had to conclude such a tax reimbursement agreement.

16. Financial regulation 5.3 reads as follows:

"Tax Equalization

"Financial Regulation 5.3: When a staff member, notwithstanding Section 18 (b) of the Convention on the Privileges and Immunities of the United Nations or Section 19 (b) of the Convention on the Privileges and Immunities of the Specialized Agencies, as applicable, is subject to national income taxation and pays taxes in respect of the salaries or emoluments paid to him or her by the Organization, and if a tax reimbursement agreement exists between the Organization and the Member State levying such taxes, then that Member State shall refund the Organization the amounts it has disbursed to staff members for such taxes under the terms of such an agreement."

17. In staff regulation 6.8 (c) it is stated that:

"Where a staff member, notwithstanding Section 18 (b) of the Convention on the Privileges and Immunities of the United Nations or Section 19 (b) of the Convention on the Privileges and Immunities of the Specialized Agencies, as applicable, is subject to national income taxation in respect of the salaries or emoluments paid to him or her by the Organization, the Director-General is authorized to refund to the staff member an amount representing the tax paid for the year on his or her organization salary and emoluments."

18. Although the conclusion of the agreement was clearly premised on the membership of the United States in UNIDO, the agreement contains its own termination clause and would not have been directly affected by the denunciation of the UNIDO Constitution. The termination clause reads as follows: "This Agreement shall enter into force upon signature by the Parties and may thereafter be terminated by either Party on December 31 of the year following the year in which notice is given in writing to the other Party."

19. The United States Government informed UNIDO on 15 December 1995 of its intention to terminate the agreement. The tax reimbursement agreement will therefore come to an end on 31 December 1996.

20. It should be noted that total reimbursements of income tax on salaries and emoluments made by UNIDO to its United States staff members is estimated at $200,000 per annum. The Committee may wish to provide guidance on this issue.

21. Although the United States has regularly refunded UNIDO for the tax payments of staff members of United States nationality since the entry into force of the tax reimbursement agreement in 1992, no payments have so far been received for the disbursements made by the Organization from 1986-1991, in spite of repeated requests for reimbursement addressed to the United States authorities.

B. Other agreements

22. Several trust fund agreements were concluded between UNIDO and the United States of America for the implementation of technical cooperation projects. These agreements, which are based on the model agreement outlined in UNIDO/DG/B.18/Rev.1, contain a termination clause that allows each party to terminate the agreement by giving 30 days written notice to the other party.

23. The last of these agreements was one regarding the funding of the UNIDO Investment Promotion Service in Washington for which the United States Government notified UNIDO on 8 February 1995 of its intention to stop such funding as of 1 October 1995.

24. The memorandum of understanding concluded between UNIDO and the Environmental Protection Agency of the United States of America on 3 June 1992 is still in effect. It may be terminated upon three months' written notice, in accordance with its Article IV.

III. OUTSTANDING PAYMENT OF ASSESSED CONTRIBUTIONS

25. Member States were advised in document IDB.15/3-PBC/AS.3/3 (annex I) of 16 April 1996 of the status of the assessed contribution of the United States of America. No payments have been received since then from the United States Government.

26. The status remains unchanged as of 20 August 1996 in terms of United States dollars and Austrian schillings due; the total United States dollar equivalent reflects a movement in the rate of exchange from US$ 1 = AS 10.10 to US$ 1 = AS 10.40.

27. During the sixth session of the General Conference, in December 1995, the delegate of the United States of America declared that the United States administration recognized its obligations to the Organization, but that there was no assurance that the United States of America would be able to pay its full dues, or even most of them, in a timely manner.

28. The Committee may wish to issue a solemn appeal to the United States of America to meet its recognized financial obligations.

IV. ACTION REQUIRED OF THE COMMITTEE

29. The Committee may wish to take note of the information contained in the present document and make appropriate recommendations for further action.

Contributions payable as of 20 August 1996

Prior years		Current year		(ROE: 10.40) dollar equivalent	TOTAL dollar equivalent	Date of last payment
Dollars	Schillings	Dollars	Schillings			
3,617,364	342,203,230	2,944,650	278,564,374	59,689,193	66,251,207	94-11-18

Distr.
GENERAL

IDB.16/5/Corr.1
PBC.12/5/Corr.1
7 November 1996

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board
Sixteenth session
Vienna, 20-22 November 1996
Item 5 (g) of the provisional agenda

Programme and Budget Committee
Twelfth session
Vienna, 18-20 November 1996
Item 11 of the provisional agenda

WITHDRAWAL OF THE UNITED STATES OF AMERICA FROM UNIDO

Some legal and financial implications

Note by the Secretariat

Corrigendum

Page 4, paragraph 21

For the existing text *substitute*

21. In accordance with the tax reimbursement agreement between the United States and the United Nations Industrial Development Organization, which entered into force in 1993, the United States has regularly refunded UNIDO for the tax payments it has made to staff members of United States nationality on institutional income earned on or after 1 January 1992. The United States Government terminated the tax reimbursement agreement effective 31 December 1996. No agreement has been reached with the United States for the disbursements made by the Organization from 1986 to 1991.

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.96 87128 (E) (a:\1996\pmo.7)

Distr.: 11 November 1996

Distr.
GENERAL

IDB.16/6
PBC.12/6
12 September 1996

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Sixteenth session
Vienna, 20-22 November 1996
Item 5 (d) of the provisional agenda

Programme and Budget Committee

Twelfth session
Vienna, 18-20 November 1996
Item 7 of the provisional agenda

FINANCIAL REGULATIONS

Report by the Director-General

Summary

Describes the review made of the Financial Regulations of UNIDO and proposes amendments to specific regulations.

CONTENTS

		Paragraphs	*Page*
Introduction		1 - 2	2
Chapter			
I.	BACKGROUND	3	2
II.	PRESENT REVIEW	4	2
III.	PROPOSED AMENDMENTS	5	2
IV.	REVIEW OF THE FINANCIAL RULES	6 - 7	2
V.	CONCLUSION	8 - 9	3
VI.	ACTION REQUIRED OF THE COMMITTEE	10	3
Annexes			
I.	Comparison of present and proposed financial regulations		4
II.	Proposed amended financial regulations		16

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.96 85729 (E) (a:\1996\pmo.4)

Distr.: 26 September 1996

Introduction

1. The far-reaching restructuring and reform process of UNIDO began upon approval by the General Conference at its fifth session of resolution GC.5/Res.18 on the future policy framework of UNIDO and its organizational and staff structure. The reform process continued throughout 1994 and 1995, and reports on the reform were presented to the sixth session of the General Conference (GC.6/30 and Add.1) and to the fifteenth session of the Board (IDB.15/14). The successful implementation of the restructuring is predicated, to some extent, on the regulatory framework under which the reforms are being enacted. Therefore, it follows that the process of restructuring and reform requires a comprehensive review of the regulatory framework and administrative procedures governing the financial administration of the Organization. During the 1994-1995 biennium, Member States encouraged UNIDO to review its procedures, including the financial regulatory framework, such as the financial rules and regulations. At its fifteenth session, the Board decided to review the provisions of financial regulations related to the budgeting process with a view to assuring the necessary flexibility by recommending, when necessary, to the General Conference the amendment of those provisions to facilitate the adoption of revised estimates and adjustments of approved budgets between regular sessions of the Conference as well as to ensure adequate budgetary control on the transfer of appropriations among major programmes (IDB.15/Dec.3, paragraph (d)).

2. The present document contains a first set of proposed amendments to the financial regulations relating mainly to budgetary issues. Both the financial regulations and the financial rules are currently under review within the Secretariat with a view to identifying the adjustments or modifications required to bring them into line with the new orientations and activities of UNIDO, and to permit UNIDO to cooperate with organizations providing new sources of funding. Therefore, further suggestions may be submitted by the Secretariat at a later stage regarding possible amendments to other provisions of the financial regulations dealing mainly with voluntary contributions and the administration of funds for technical cooperation.

I. BACKGROUND

3. The Financial Regulations of UNIDO were first drafted in 1985, following an extensive review of the regulations of the United Nations and its specialized agencies. The regulations were approved by the General Conference at its second session, in 1987 (GC.2/Dec.25). Amendments have been made from time to time to address changing financial circumstances. In particular, regulations were introduced, deleted or amended in respect of the authority to incur obligations and make payments under the operational budget and in respect of the Tax Equalization Fund. However, as UNIDO is a relatively young agency, its financial regulations have generally retained their validity and appropriateness as an effective regulatory tool.

II. PRESENT REVIEW

4. In conducting the present review, the Secretariat has studied the financial regulations of other organizations in the United Nations system, in particular those of the International Atomic Energy Agency which were recently revised. Notwithstanding the overall appropriateness and validity of the financial regulations in governing the financial administration of the Organization, the present review has brought to light sections of the financial regulations that are in need of amendment. Specifically, the following regulations are addressed in the present report:

- Form and review of the budgets (regulations 3.4 and 3.5);
- Current and future fiscal periods (regulation 4.2);
- Transfer of expenditures (regulation 4.3);
- Appropriation and assessment (regulations 5.1 and 5.2);
- General Fund and regular budget accounts (regulations 10.1 and 10.2).

III. PROPOSED AMENDMENTS

5. Annex I to the present document sets out in tabular form the proposed amendments to the specific financial regulations that require attention. The format shows the current regulations, the proposed amended regulations and describes the reasons for the amendments, including problems experienced with the current regulations and benefits or improvements anticipated from the amended regulations.

IV. REVIEW OF THE FINANCIAL RULES

6. The Director-General is presently undertaking a full review of the financial rules, with a view to ensuring that the regulatory framework at the secondary level provides sufficient scope to permit the Organization to

complete its programme of work in an efficient and flexible manner. In the event that proposed changes to the financial rules require further amendments to the financial regulations, these will be submitted to the seventh session of the General Conference through the Programme and Budget Committee and the Industrial Development Board.

7. In accordance with financial regulation 12.1, revised financial rules will be reported to the Industrial Development Board through the Programme and Budget Committee.

V. CONCLUSION

8. The introduction of the new financial regulations, which would take effect from 1 January 1998, will represent an important stage of the UNIDO reform.

9. The main thrust of the amendments is to ensure that the financial regulations permit cost-effective implementation of the work programmes of the Organization through a shift of emphasis from inputs (objects of expenditure) to outputs (programme objectives and activities). At the same time, a reasonable degree of flexibility has been introduced to permit the Organization to respond to new initiatives or changes in circumstances that may arise during the biennium. However, the amendments to the financial regulations will not weaken the financial framework of the Organization or infringe upon the authority and oversight available to Member States.

VI. ACTION REQUIRED OF THE COMMITTEE

10. The Committee may wish to consider the proposals contained in the present document concerning the revision of financial regulations and recommend to the Industrial Development Board that the revised regulations as set out in annex II thereto be transmitted to the General Conference for consideration and adoption.

Annex I

COMPARISON OF PRESENT AND PROPOSED FINANCIAL REGULATIONS

Regulation	Current regulation	Proposed regulation (New wording - **bold**) (Deletion - *italic*)	Reason for amendment
3.4(a)	The regular budget shall be divided into programmes and subprogrammes for expenditure as well as into sections for income. It shall also be presented by major objects of expenditure. It shall be accompanied by such information annexes and explanatory statements as may be requested by the General Conference (hereinafter referred to as the "Conference"), the Board or the Programme and Budget Committee, as well as such annexes as the Director-General may deem necessary or useful. The regular budget also shall be accompanied by a statement on the main changes in comparison with the previous biennium.	3.4(a) The regular budget shall be divided into **major programmes**, programmes and subprogrammes for expenditure as well as into sections for income. It shall also be presented by major objects of expenditure. It shall be accompanied by such information annexes and explanatory statements as may be requested by the General Conference (hereinafter referred to as the "Conference"), the Board or the Programme and Budget Committee as well as such annexes as the Director-General may deem necessary or useful. The regular budget also shall be accompanied by a statement on the main changes in comparison with the previous biennium.	Problems with current practice 3.4(a) The current regulation does not take into account the division of the budget at the major programme level. New practice 3.4(a) The biennial budgets of UNIDO are presented in line with the format approved by the seventh session of the Industrial Development Board, presenting the budget at three distinct levels of major programme, programme and sub-programme. The proposed amendment aligns the regulation to the actual practice of presenting the budget at the major programme, programme and subprogramme levels. Practice in other organizations 3.4(a) Most other United Nations organizations present budgets at the major programme level.

Regulation	Current regulation	Proposed regulation (New wording - **bold**) (Deletion - *italic*)	Reason for amendment
3.4(b)	The operational budget shall show the expected income and expenditures in respect of voluntary contributions to the Industrial Development Fund, in respect of such trust funds, reserve and special accounts as have been or may be established by the Director-General and in respect of support costs of technical assistance activities. It shall be accompanied by such information annexes and explanatory statements as may be requested by the Conference, the Board or the Programme and Budget Committee, as well as such annexes as the Director-General may deem necessary or useful.	3.4(b) Unchanged.	

Regulation	Current regulation	Proposed regulation (New wording - **bold**) (Deletion - *italic*)	Reason for amendment
3.5	The Director-General shall in the second year of each fiscal period, submit a draft programme of work and the corresponding estimates for the regular budget and the operational budget for the following fiscal period to the Board through the Programme and Budget Committee, as soon as possible and at the latest forty-five days prior to the opening of the session of that Committee.	3.5 The Director-General shall in the second year of each fiscal period, submit a draft programme of work *and* the corresponding estimates **and the proposed budget rate of exchange between the United States dollar and the Austrian schilling** for the regular budget and the operational budget for the following fiscal period to the Board through the Programme and Budget Committee, as soon as possible and at the latest forty-five days prior to the opening of the session of that Committee.	Problems with current practice 3.5 UNIDO does not have an adequate mechanism for setting the budget exchange rate and the methodology applied in recent bienniums has resulted in a constant budget exchange rate of US$ 1 = AS 12.90 being applied since 1990. UNIDO budgets are prepared in a combination of US dollars and Austrian schillings in accordance with the split-currency system. However, the presentation of the budgetary estimates at an equivalent US dollar value may lead to distortions if the budget exchange rate is substantially at variance with the current rate. The question of realistic exchange rates was raised during the eleventh session of the Programme and Budget Committee. New practice 3.5 The amendment would assure that budget estimates would be linked to an exchange rate that would remain constant from the beginning of the budgetary cycle up to the Conference. The budgetary exchange rate facilitates comparison between budget periods. It is used for presentation purposes since budgetary estimates consist of Austrian schilling- and dollar-based expenditures. For comparison purposes, the proposed budget rate for the forthcoming biennium would be applied to the budget estimates of the previous biennium. Practice in other organizations 3.5 Organizations using the split-currency system (IAEA, UNESCO and UNIDO) are faced with exchange rate/equivalent dollar presentation problems. In recent years, these Organizations have retained a constant dollar rate.

Regulation	Current regulation	Proposed regulation (New wording - **bold**) (Deletion - *italic*)	Reason for amendment
4.2(a)	Regular budget appropriations shall be available for obligation during the fiscal period to which they relate.	4.2(a) Unchanged.	
4.2(b)	Regular budget appropriations shall remain available for twelve months following the end of the fiscal period to which they relate, to the extent that they are required to discharge obligations in respect of goods supplied and services rendered during that fiscal period and to liquidate any other outstanding obligation of that fiscal period. The unencumbered balance of the appropriations at the end of a fiscal period shall be surrendered to the Members at the end of the first calendar year following the fiscal period after deducting therefrom any contributions from Members relating to that fiscal period which remain unpaid, and shall be credited to the Members in proportion to their assessed contributions in accordance with the provision of Financial Regulations 4.2(c) and 5.2(d).	4.2(b) Regular budget appropriations shall remain available for twelve months following the end of the fiscal period to which they relate, to the extent that they are required to discharge obligations in respect of goods supplied and services rendered during the fiscal period and to liquidate any other outstanding legal obligations of that fiscal period. *The unencumbered balance of appropriations at the end of a fiscal period shall be surrendered to the Members at the end of the first calendar year following the fiscal period after deducting therefrom any contributions from Members relating to that fiscal period which remain unpaid, and shall be credited to the Members in proportion to their assessed contributions in accordance with the provision of Financial Regulations 4.2(c) and 5.2(d).*	Problems with current practice 4.2(b) Outstanding Austrian schilling contributions are only fixed in United States dollars twelve months after the close of the fiscal period. This fixing assures that the dollar value of the unutilized balances remains constant in the future. It is, therefore, not possible to surrender any unencumbered balance prior to the fixing of outstanding Austrian schilling contributions. New practice 4.2(b) The proposed amendment would align the regulation with the current interpretation of the regulation. Experience has shown that it is not possible to determine the final unutilized balances until unpaid Austrian schilling contributions are fixed in United States dollars.

Regulation	Current regulation	Proposed regulation (New wording - **bold**) (Deletion - *italic*)	Reason for amendment
4.2(c)	At the end of the twelve-month period referred to in subparagraph (b) above, the then remaining balance of any regular budget appropriations retained shall be reported in detail by the Director-General to the External Auditor for examination and review and, after deducting therefrom any contributions from Members relating to the fiscal period of the appropriations which remain unpaid, shall be surrendered to the Members in proportion to their assessed contributions at the end of the second calendar year following the fiscal period to which the appropriations relate, provided, however, that before the respective share of the balance is surrendered to any Member that has outstanding regular budget obligations to the Organization, those obligations shall first be brought to account. Any unliquidated regular budget obligation of the fiscal period in question shall at that time either be cancelled or, where the obligation remains a valid charge, transferred as an obligation against the current appropriations.	4.2(c) At the end of the twelve-month period referred to in subparagraph (b) above, the then remaining balance of any regular budget appropriations retained shall be reported in detail by the Director-General to the External Auditor for examination and review, and, **retained in an appropriation reserve pending the consideration and approval by the Conference of proposals made by the Director-General, recommended by the Programme and Budget Committee and adopted by the Board on the utilization of such reserves***after deducting therefrom any contributions from Members relating to the fiscal period of the appropriations which remain unpaid, shall be surrendered to the Members in proportion to their assessed contributions at the end of the second calendar year following the fiscal period to which the appropriations relate, provided however, that before the respective share of the balance is surrendered to any Member that has outstanding regular budget obligations to the Organization, those obligations shall first be brought to account*. Any unliquidated regular budget obligation of the fiscal period in question shall at that time either be cancelled or, where the obligation remains a valid charge, transferred as an obligation against the current appropriations.	4.2(c) This would ensure that, following the receipt of late payments of Member States' assessed contributions, the General Conference would have the opportunity of authorizing the utilization of such balances (i.e. cash and appropriations) for activities related to programmes which could not be carried out during the fiscal period due to shortfalls in the payment of assessed contributions. The General Conference could, in fact, authorize the utilization of unspent appropriations for other purposes, including for example, one time capital expenditure or major repair items, previously unanticipated expenditures, the strengthening of the cash base, or for substantive programmes and the financing of technical cooperation projects. The General Conference could also decide to surrender unspent appropriations to Member States (as in the present financial regulation 4.2(c)). The intention of the amended regulation is to provide the General Conference with the opportunity to review the unspent appropriations and consider modalities for utilization, taking into account the circumstances prevailing at the time the review is being undertaken.

Regulation	Current regulation	Proposed regulation (New wording - **bold**) (Deletion - *italic*)	Reason for amendment
4.3(a)	No transfer of expenditures shall take place between the regular budget and the operational budget.	4.3(a) Unchanged.	
4.3(b)	No transfer between major objects of expenditure within the regular budget may take place, except when approved by the Conference in accordance with Regulation 3.11.	Replaces 4.3(b): 4.3(b) **Transfers between major objects of expenditure within the regular budget, limited to 10 per cent of the budgetary allocation for each major object of expenditure, may be made by the Director-General. Transfers between major objects of expenditure in excess of 10 per cent of the budget allocation for each major object of expenditure may take place when approved by the Industrial Development Board on the recommendation of the Programme and Budget Committee.**	Problems with current practice 4.3(b) Present regulation 4.3(b) does not provide a sufficiently flexible and dynamic utilization of budgetary resources in the implementation of programmes of work. The emphasis in respect of resource utilization presently favours specific items of expenditure or inputs, rather than the achievement of outputs and approved activities. The implementation of programmes of work should not be unduly restricted through rigid adherence to specific budgeted expenditure items. New practice 4.3(b) The amendment would provide a degree of flexibility in the control of the expenditure of budgetary resources. This would permit a limited transfer of resources between objects of expenditure within major programmes. Programme implementation and effectiveness should be enhanced. To ensure that adequate control is exercised by the policy-making organs, the Director-General would only be permitted to make such transfers up to 10 per cent of the amount allocated for the major object of expenditure. This means that the allocations for each major object of expenditure could not increase or decrease by more than 10 per cent. The revised financial regulations would ensure that proposed transfers in excess of the 10 per cent limit would require the approval of the Industrial Development Board.

Regulation	Current regulation	Proposed regulation (New wording - **bold**) (Deletion - *italic*)	Reason for amendment
4.3(c)	Transfers within major objects of expenditure of the regular budget may be made by the Director-General, who shall inform the Board, through the Programm e and Budget Committee, and the Conference thereof as soon as possible, provided that in the first fiscal period following its creation, a professional-level post may not be transferred to another programme or subprogramme.	4.3(c) Transfers within major objects of expenditure of the regular budget may be made by the Director-General, who shall inform the Board, through the Programme and Budget Committee, and the Conference thereof as soon as possible, provided that in the first fiscal period following its creation, a professional-level post may not be transferred to another programme or subprogramme. **Transfers or mergers of programmes or sub-programmes between major programmes comprising revised estimates for the current fiscal period may take place when approved by the Industrial Development Board on the recommendation of the Programme and Budget Committee.**	4.3(c) The amendment would provide a degree of flexibility to permit the Director-General to make budgetary revisions within the fiscal period, particularly to effect budgetary transfers to reflect organizational restructuring.
5.1(a)	The appropriations approved for regular budget expenditures, subject to the adjustments effected in accordance with the provisions of Regulation 5.2, shall be financed by mandatory contributions from the Members in accordance with a scale of assessments established by the Conference as provided in Article 15 of the Constitution.	5.1(a) Unchanged.	
5.1(b)	Pending the receipt of such contributions, the appropriations may be financed from the Working Capital Fund.	5.1(b) Unchanged.	

Regulation	Current regulation	Proposed regulation (New wording - **bold**) (Deletion - *italic*)	Reason for amendment
5.1(c)	For each of the two years of the fiscal period, Members shall contribute one half of the total approved amount.	5.1(c) Unchanged.	
5.1(d)	Each assessment shall be established in a component in United States dollars and the remainder in Austrian schillings in direct proportion to the respective shares of regular budget expenditures determined by the Conference, upon recommendation of the Director-General, to be linked to these two currencies. The initial assessment in Austrian schillings shall be established at the United Nations accounting rate of exchange in effect at the time the regular budget is adopted by the Conference.	5.1(d) Each assessment shall be established in a component in United States dollars and the remainder in Austrian schillings in direct proportion to the respective shares of regular budget expenditures determined by the Conference, *upon recommendation of the Director-General*, to be linked to these two currencies. *The initial assessment in Austrian schillings shall be established at the United Nations accounting rate of exchange in effect at the time the regular budget is adopted by the Conference.*	Problems with current practice 5.1(d) Dollar/schilling proportion The recommendation of the Director-General on the proportion of Austrian schilling/US dollar share of regular budget expenditures is part of the budgetary proposals considered by the Programme and Budget Committee and the Industrial Development Board and does not require a specific authorization request directly from the Director-General to the Conference. 5.1(d) Initial assessment rate The equivalent value in US dollars of the Austrian schilling assessment on Member States is calculated using the United Nations operational rate of exchange. This rate is revised each month. Therefore, the reference in the regulations to the rate in effect at the time the regular budget is adopted by the Conference has no relevance in accounting or budgetary terms. New practice 5.1(d) Dollar/schilling proportion The proposed programme and budgets presented by the Director-General to the Programme and Budget Committee will include the proposed proportion of the shares of United States dollars and Austrian schillings. Practice in other organizations 5.1(d) IAEA - The revised regulation compares with the IAEA practice.

Regulation	Current regulation	Proposed regulation (New wording - **bold**) (Deletion - *italic*)	Reason for amendment
5.2	For each of the two years of the fiscal period the assessment of Members shall be adjusted in respect of:	5.2 Unchanged.	
(a)	Supplementary appropriations for which contributions have not yet been assessed;	5.2(a) Unchanged.	
(b)	Half of the estimated miscellaneous income to the regular budget for the fiscal period, for which credits have not previously been taken into account, and adjustments in estimated miscellaneous income previously taken into account;	5.2(b) Half of the estimated miscellaneous income to the regular budget for the fiscal period *for which credits have not previously been taken into account, and adjustments in estimated miscellaneous income previously taken into account*, **and credits in respect of income not previously taken into account**.	Problems with current practice 5.2(b) The current accounting procedure distinguishes between: (a) the credits taken into account for miscellaneous income for the budgetary period for which the assessment is being made; and (b) the credits for miscellaneous income in excess of budget for the previous budget period. This excess is included with the balance of appropriations reported to Member States in the financial performance report. New practice 5.2(b) To bring the regulations into line with current procedures.
(c)	Contributions resulting from the assessment of new Members as provided in Financial Regulation 5.6;	5.2(c) Unchanged.	
(d)	Any balance of the appropriations surrendered to Members under Financial Regulations 4.2(b) and (c).	5.2(d) **Any distribution of the appropriation reserve to Members under financial regulations 4.2***(b) and* (c).	Problems with current practice 5.2(d) See regulation 4.2. New practice 5.2(d) The amendment would be in line with the proposed amendment to regulation 4.2(c).

Regulation	Current regulation	Proposed regulation (New wording - **bold**) (Deletion - *italic*)	Reason for amendment
10.1(a)	There shall be a General Fund for the purpose of accounting for those expenditures of the Organization, which are to be financed from the regular budget.	10.1(a) Unchanged.	
10.1(b)	To the General Fund shall be credited:		
	(i) The contributions to the regular budget paid by Members pursuant to Financial Regulation 5.1;	10.1(b)(i) Unchanged;	
	(ii) Any advances made from the Working Capital Fund to finance expenditures of the regular budget;	10.1(b)(ii) Unchanged;	
	(iii) Revenue derived from the Staff Assessment Plan;	10.1(b)(iii) *Revenue derived from the Staff Assessment Plan;*	10.1(b)(iii) Budgeting and accounting for salaries is made on a net basis. Therefore, no cost or revenue is recorded by UNIDO for staff assessment. However, in the United Nations, salaries are generally budgeted on a gross basis as this is linked to the United Nations Tax Equalization Fund. The UNIDO Tax Equalization Fund was discontinued following a change in the financial regulations approved by the fourth session of the Conference.
	(iv) Miscellaneous income to the regular budget including income from investment of the Working Capital Fund and the General Fund, proceeds from the provision or rental of goods or services, or adjustments arising subsequent to the closing of an operational budget account such as a trust fund, special account, project, etc.	10.1(b)**(iii)***(iv)* Unchanged.	

Regulation	Current regulation	Proposed regulation (New wording - **bold**) (Deletion - *italic*)	Reason for amendment
10.2(a)	The Director-General shall establish such accounts and maintain such accounting records as are necessary.	10.2(a) The Director-General shall establish such accounts and maintain such accounting records as are necessary, **giving due consideration to the United Nations accounting standards.**	Problems with current practice 10.2(a) The CCAQ(FB) working party on accounting standards has proposed the change. New practice 10.2(a) The amendment is in line with current United Nations practice and the recommendations of the CCAQ(FB) working party on accounting standards.
10.2(b)	The Director-General shall prepare and submit final accounts for each fiscal period showing its status of appropriations, including: (i) The original budget appropriations; (ii) Any supplementary appropriations; (iii) The appropriations as modified by any transfers; (iv) Credits, if any, other than the appropriations voted by the Conference; (v) The amounts charged against those appropriations and/or other credits.	10.2(b) Unchanged.	

Regulation	Current regulation	Proposed regulation (New wording - **bold**) (Deletion - *italic*)	Reason for amendment
			Problems with current practice
10.2(c)	The Director-General also shall prepare and submit:	10.2(c) Unchanged.	10.2(c) The CCAQ(FB) working party on accounting standards has proposed the additional statements.
	(i) A statement showing the assets and liabilities of the Organization at the close of the fiscal period;	10.2(c)(i) Unchanged.	
			New practice
	(ii) An analysis of the financial situation of the Organization at the close of the fiscal period;	10.2(c)(ii) Unchanged	10.2(c) The amendment is in line with current United Nations practice and the recommendations of the CCAQ(FB) working party on accounting standards.
	(iii) Such other information as may be appropriate.	10.2(c)(iii) **A statement of income and expenditure and change in reserves and fund balances;**	
			Practice in other organizations
		10.2(c)(iv) **A statement of cash;**	10.2(c) Since the new format was approved by CCAQ, other organizations are expected to amend their financial statements.
		10.2(c)(v) **Such other information as may be appropriate.**	

Annex II

PROPOSED AMENDED FINANCIAL REGULATIONS

Regulation 3.4:

(a) The regular budget shall be divided into major programmes, programmes and subprogrammes for expenditure as well as into sections for income. It shall also be presented by major objects of expenditure. It shall be accompanied by such information annexes and explanatory statements as may be requested by the General Conference (hereinafter referred to as the "Conference"), the Board or the Programme and Budget Committee as well as such annexes as the Director-General may deem necessary or useful. The regular budget also shall be accompanied by a statement on the main changes in comparison with the previous biennium.

(b) The operational budget shall show the expected income and expenditures in respect of voluntary contributions to the Industrial Development Fund, in respect of such trust funds, reserve and special accounts as have been or may be established by the Director-General and in respect of support costs of technical assistance activities. It shall be accompanied by such information annexes and explanatory statements as may be requested by the Conference, the Board or the Programme and Budget Committee, as well as such annexes as the Director-General may deem necessary or useful.

Regulation 3.5:

The Director-General shall in the second year of each fiscal period, submit a draft programme of work, the corresponding estimates and the proposed budget rate of exchange between the United States dollar and the Austrian schilling for the regular budget and the operational budget for the following fiscal period to the Board through the Programme and Budget Committee, as soon as possible and at the latest forty-five days prior to the opening of the session of that Committee.

Regulation 4.2:

(a) Regular budget appropriations shall be available for obligation during the fiscal period to which they relate.

(b) Regular budget appropriations shall remain available for twelve months following the end of the fiscal period to which they relate, to the extent that they are required to discharge obligations in respect of goods supplied and services rendered during the fiscal period and to liquidate any other outstanding legal obligations of that fiscal period.

(c) At the end of the twelve-month period referred to in subparagraph (b) above, the then remaining balance of any regular budget appropriations retained shall be reported in detail by the Director-General to the External Auditor for examination and review, and, retained in an appropriation reserve pending the consideration and approval by the Conference of proposals made by the Director-General, recommended by the Programme and Budget Committee and adopted by the Board on the utilization of such reserves. Any unliquidated regular budget obligation of the fiscal period in question shall at that time either be cancelled or, where the obligation remains a valid charge, transferred as an obligation against the current appropriations.

Regulation 4.3:

(a) No transfer of expenditures shall take place between the regular budget and the operational budget.

(b) Transfers between major objects of expenditure within the regular budget, limited to 10 per cent of the budgetary allocation for each major object of expenditure, may be made by the Director-General. Transfers between major objects of expenditure in excess of 10 per cent of the budget allocation for each major object of expenditure may take place when approved by the Industrial Development Board on the recommendation of the Programme and Budget Committee.

(c) Transfers within major objects of expenditure of the regular budget may be made by the Director-General, who shall inform the Board, through the Programme and Budget Committee, and the Conference thereof as soon as possible, provided that in the first fiscal period following its creation, a professional-level post may not be transferred to another programme or subprogramme. Transfers or mergers of programmes or subprogrammes between major programmes comprising revised estimates for the current fiscal period may take place when approved by the Industrial Development Board on the recommendation of the Programme and Budget Committee.

Regulation 5.1:

(a) The appropriations approved for regular budget expenditures, subject to the adjustments effected in accordance with the provisions of regulation 5.2, shall be financed by mandatory contributions from the Members in accordance with a scale of assessments established by the Conference as provided in Article 15 of the Constitution.

(b) Pending the receipt of such contributions, the appropriations may be financed from the Working Capital Fund.

(c) For each of the two years of the fiscal period, Members shall contribute one half of the total approved amount.

(d) Each assessment shall be established in a component in United States dollars and the remainder in Austrian schillings in direct proportion to the respective shares of regular budget expenditures determined by the Conference to be linked to these two currencies.

Regulation 5.2:

For each of the two years of the fiscal period the assessment of Members shall be adjusted in respect of:

(a) Supplementary appropriations for which contributions have not yet been assessed.

(b) Half of the estimated miscellaneous income to the regular budget for the fiscal period and credits in respect of income not previously taken into account.

(c) Contributions resulting from the assessment of new Members as provided in Financial Regulation 5.6.

(d) Any distribution of the appropriation reserve to Members under financial regulation 4.2(c).

Regulation 10.1:

(a) There shall be a General Fund for the purpose of accounting for those expenditures of the Organization, which are to be financed from the regular budget.

(b) To the General Fund shall be credited:

(i) The contributions to the regular budget paid by Members pursuant to financial regulation 5.1;

(ii) Any advances made from the Working Capital Fund to finance expenditures of the regular budget;

(iii) Miscellaneous income to the regular budget, including income from investment of the Working Capital Fund and the General Fund, proceeds from the provision or rental of goods or services, or adjustments arising subsequent to the closing of an operational budget account such as a trust fund, special account, project, etc.

Regulation 10.2:

(a) The Director-General shall establish such accounts and maintain such accounting records as are necessary, giving due consideration to the United Nations accounting standards.

(b) The Director-General shall prepare and submit final accounts for each fiscal period showing its status of appropriations, including:

(i) The original budget appropriations;

(ii) Any supplementary appropriations;

(iii) The appropriations as modified by any transfers;

(iv) Credits, if any, other than the appropriations voted by the Conference;

(v) The amounts charged against those appropriations and/or other credits.

(c) The Director-General also shall prepare and submit:

(i) A statement showing the assets and liabilities of the Organization at the close of the fiscal period;

(ii) An analysis of the financial situation of the Organization at the close of the fiscal period;

(iii) A statement of income and expenditure and change in reserves and fund balances;

(iv) A statement of cash;

(v) Such other information as may be appropriate.

Distr.
GENERAL

IDB.16/6/Add.1
PBC.12/6/Add.1
11 October 1996

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Sixteenth session
Vienna, 20-22 November 1996
Item 5 (d) of the provisional agenda

Programme and Budget Committee

Twelfth session
Vienna, 18-20 November 1996
Item 7 of the provisional agenda

FINANCIAL REGULATIONS

Addendum

Report by the Director-General

Summary

On the basis of additional information received following the issuance of document IDB.16/6-PBC.12/6, contains amendments to the proposals for revised financial regulations presented in that document.

1. The proposed amendments to the financial regulations as contained in document IDB.16/6-PBC.12/6 were reviewed by the Director of External Audit during his visit to UNIDO in September 1996.

2. Following consideration of the comments of the Director of External Audit, amendments are being introduced to the proposals contained in document IDB.16/6-PBC.12/6, as follows.

Financial regulation 3.5 (annex I, page 6)

3. The Secretariat has reconsidered its proposal to introduce a budget rate of exchange in the financial regulations. It is now considered preferable that any proposals to amend the rate of exchange used in the preparation of budget proposals be considered, when required, by the Programme and Budget Committee, rather than being included in the financial regulations.

4. The proposal under regulation 3.5 to introduce a budget rate of exchange is, therefore, withdrawn.

Financial regulation 10.2(c) (annex I, page 15)

5. The proposed amendments to financial regulation 10.2(c) governing the financial reporting responsibilities of the Director-General, as contained in document IDB.16/6-PBC.12/6, have been supplemented to include a reference to all the reports required to conform with the UNIDO practice and the Consultative Committee on Administrative Questions recommendations on United Nations accounting standards.

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.96 86476 (E)

Distr.: 16 October 1996

6. The proposed financial regulation 10.2(c) would read as follows:

"The Director-General also shall prepare and submit:

(i) A statement of income and expenditure and changes in reserves and fund balances;

(ii) A statement of assets, liabilities, and reserves and fund balances;

(iii) A statement of cash flow;

(iv) A statement of appropriations by major programme;

(v) An analysis of the financial situation of the Organization at the close of the fiscal period;

(vi) Such other information as may be appropriate."